

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00
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E.O. 11652: GDS

TAGS: ECEM, IT, PINT

SUBJECT: SHAKE-UP AT MONTEDISON

1. SUMMARY. MONTEDISON, ITALY'S LARGEST CHEMICAL CONGLOMERATE AND IN DEEP FINANCIAL TROUBLE, IS IN THROES OF INTERNAL STRUGGLE OVER DEGREE TO WHICH STATE PARTICIPATION IN COMPANY IS DESIRABLE AND NECESSARY. ALSO AT ISSUE IS FUTURE OF MANAGERIAL TITAN EUGENIO CEFIS, MONTEDISON PRESIDENT SINCE 1971 WHOM SOME HOLD RESPONSIBLE FOR CHEERLESS CONDITION OF UNWIELDY CONGLOMERATE HE HEADS. BETTING IS THAT CEFIS WILL WEATHER PRESENT STORM AND KEEP MONTEDISON IN MOSTLY PRIVATE HANDS. END SUMMARY.

2. MONTEDISON, ITALY'S LARGEST CHEMICAL CONGLOMERATE AND EMPLOYER OF 150,000, IS IN SERIOUS FINANCIAL TROUBLE AND CLAIMS IT BADLY NEEDS LARGE INCREASE IN CAPITALIZATION. DISAGREEMENT OVER WHERE TO GET NEW MONEY--AND WHETHER STATE SHOULD INCREASE ITS CONTROL

OVER COMPANY IN RETURN FOR ANY HELP--HAS LONG EXISTED BETWEEN LEFTIST PARTIES AND DC BUT HAS NOW TOUCHED OFF BITTER STRUGGLE WITHIN COMPANY ITSELF AT HIGHEST LEVELS.

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3. MONTEDISON TROUBLES SPRANG INTO NEWS FEBRUARY 28 WHEN BOARD OF DIRECTORS MET TO REVIEW CORPORATION'S 1976 BUDGET AND ACTIVITIES. ALTHOUGH REPORT RELEASED TO PRESS SHOWED MONTEDISON S.P.A. (AS OPPOSED TO ENTIRE MONTEDISON GROUP) 1976 SALES OF 2735 BILLION LIRE (UP 45 PERCENT FROM 1975) AND PROFITS FOR ALL CHEMICAL SECTORS (EXCEPT FERTILIZER), IT ALSO REVEALED MONTEDISON S.P.A. 60 BILLION LIRE LOSS (DOWN FROM 73 BILLION FOR 1975). EVEN BIGGER

LOSS MAKERS WERE SUBSIDIARIES--LIKE MONTEFIBRE (ESTIMATED 1976 LOSS \$115 MILLION DOLLARS) AND STANDA DEPARTMENT STORES (ESTIMATED LOSS \$70-80 MILLION) IN WHICH MONTEDISON S.P.A. HAS CONTROLLING INTEREST AND WHICH FORM PART OF MONTEDISON GROUP.

4. NOT ALL MONTEDISON SUBSIDIARIES WERE IN RED. GROUP'S BANKS AND FINANCE AND INSURANCE COMPANIES WERE ALL BRIGHT SPOTS. WITHIN MOTHER COMPANY, FOREIGN OPERATIONS (ORCHESTRATED BY MONTEDISON'S MANAGING DIRECTOR FOR FOREIGN AFFAIRS GIUSEPPE RATTI) ALSO DID PARTICULARLY WELL.

5. BASIC PROBLEMS OF ENTIRE MONTEDISON GROUP ARE SAID TO INCLUDE OVERDIVERSIFICATION IN LATE 60' ; UNDERFINANCING; GENERAL WORLD-WIDE ECONOMIC SLOWDOWN; DRASTIC INCREASES IN PRICE OF RAW MATERIALS, PRIMARILY IMPORTED OIL; AND GOVERNMENT CONTROL OF FERTILIZER AND PETRO-CHEMICAL SALES PRICES (1/3 OF MOTHER COMPANY SALES).

6. INDUSTRIALIST EUGENIO CEFIS, WHO TOOK OVER MONTEDISON IN 1971 AMID HOPES HE COULD STRAIGHTEN OUT GIANT CONGLOMERATE, IMMEDIATELY ATTACKED OVERDIVERSIFICATION PROBLEM AND BY 1974 HAD PARED OFF MANY NON-CHEMICAL INTERESTS. DUE TO LACK OF BUYERS, HOWEVER, MONTEDISON GROUP IS STILL SADDLED WITH ABOUT 50 FIRMS OUTSIDE ITS PRIMARY FIELD, OF WHICH MONTEFIBRE AND STANDA (ABOVE) ARE BIGGEST LOSERS.

7. IT IS STILL NOT ENTIRELY CLEAR WHAT TRANSPIRED FEBRUARY 28 WHEN MONTEDISON BOARD MET TO CONSIDER CORPORATION'S UNHAPPY SITUATION. ONE RESULT, HOWEVER, WAS BOARD DECISION TO RAISE CAPITAL BY LAUNCHING NEW STOCK ISSUE THAT WOULD RAISE CAPITALIZATION FROM PRESEN 435 BILLION LIRE TO 828 BILLION. ANOTHER RESULT WAS APPARENT BY COOL RECEPTION TO CEFIS' PROPOSAL TO SELL LIMITED OFFICIAL USE

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PROFITABLE BANKING AND INSURANCE INTERESTS IN ORDER TO HELP PAY OFF MONTEDISON'S MASSIVE DEBT (\$3.5 BILLION) AND MAKE NEW INVESTMENTS. WHETHER CEFIS WAS ACTUALLY VOTED DOWN, AS SOME CLAIM, OR WHETHER HE MERELY FLOATED HIS IDEA AND GOT NEGATIVE REACTION TO IT, IS NOT CLEAR. BUT MONTEDISON'S TWO STATE-OWNED BOARD MEMBERS--IRI AND ENI, WITH ABOUT 20 PERCENT OF MONTEDISON STOCK BETWEEN THEM--WERE APPARENTLY AGAINST CEFIS'S PLAN.

8. NUB OF PROBLEM, ACCORDING TO GENERAL MANAGER FOR FOREIGN AFFAIRS GIUSEPPE RATTI SPEAKING TO US MARCH 1 (MILAN 03509, IS DISPUTE OVER WHETHER MONTEDISON IS TO REMAIN PRIMARILY PRIVATE (I.E., AT PRESENT ESTIMATED 80 PERCENT) OR WHETHER STATE SHOULD INCREASE ITS OWNERSHIP. RATTI ARGUED TO US THAT CORPORATION OF MONTEDISON'S SIZE MUST HAVE STEADY ACCESS TO PUBLIC FUNDS IF IT IS TO AVOID CONTINUING AND DISRUPTIVE FINANCIAL CRISES. HE IS LEADING FIGHT WITHIN COMPANY AGAINST CEFIS' "PRIVATE" SOLUTION (I.E., RECOURSE TO NEW STOCK ISSUE AND SELLING OFF OF PROFITABLE BANKS AND INSURANCE COMPANIES), WHICH HE FEELS IS MERELY STOPGAP ANSWER TO FINANCIAL NEEDS AND NOT PERMANENT SOLUTION. RATTI

CALIMED NOT TO BE MOVED BY IDEOLOGICAL CONSIDERATIONS (PRESS HAS PUT RATTI, A SOCIALIST, ON LEFT OF CEFIS IN MATTER) BUT RATHER BY CONVICTION THAT ACCESS TO STATE MONEY IS ONLY LONG-TERM ANSWER FOR MONTEDISON.

9. CEFIS, ON OTHER HAND, HAS SPENT SIX YEARS AT MONTEDISON TRYING TO KEEP STATE AT BAY. REASON FOR CEFIS' PRESENT POSITION, MONTEDISON BOARD MEMBER DEPUTY MASSIMO DE CAROLIS TOLD US MARCH 12, PARTLY PRINCIPLE AND PARTLY SELF-PRESERVATION, LATTER SINCE STATE CONTROL WOULD COST CEFIS HIS JOB. FURTHERMORE, SAID DE CAROLIS, CEFIS BELIEVES HIS PLAN TO RAISE CAPITAL PRIVATELY WOULD BE LONG TERM RATHER THAN MERELY ONE-SHOT SOLUTION SINCE INVESTMENTS COULD BE MADE IN MONTEFIBRE THAT WOULD GET IT OUT OF RED AND STOP THAT PARTICULAR FINANCIAL HEMORRHAGE, THUS CREATING ENTIRELY NEW PROFIT SITUATION.

10. DISAGREEMENT OVER DEGREE OF STATE PARTICIPATION HAS COST LIMITED OFFICIAL USE

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MONTEDISON SERVICES OF MANAGING DIRECTOR FOR FINANCE AND INSURANCE GIORGIO CORSI AND HIGH-RANKING POLITICAL CONTACT MAN GIOACCHINO ALBANESE, AND HAS SEVERELY STRAINED RELATIONS BETWEEN CEFIS AND GUISEEPE RATTI. CORSI AND RATTI ARE CONSIDERED TO HAVE MADE BRILLIANT CONTRIBUTIONS TO COMPANY'S FINANCIAL STRUCTURE AND INTERNATIONAL OPERATIONS, RESPECTIVELY. CORSI REPORTEDLY RESIGNED IN OPPOSITION TO CEFIS' PLAN TO SELL OFF PROFITABEL BANK AND INSURANCE COMPANY COMPLEX CORSI HAD PUT TOGETHER AND WITHOUT WHICH HIS JOB WOULD DECLINE IN IMPORTANCE. AS FOR RATTI, MONTEDISON OFFICIAL IN CHARGE OF EC RELATIONS, WHO WORKS FOR RATTI, TOLD US RELATIONS BETWEEN CEFIS AND RATTI SO STRAINED THAT TWO COULD NO LONGER WORK TOGETHER AND RATTI WULD PROBABLY LEAVE. LATTER HAS NOW SUFFERED CUT IN RESPONSIBILITIES, BUT HAS NOT YET PACKED UP.

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11. PRESENT IMBROGLIO, THEREFORE, HAS CAUSED CEFIS TO SPLIT WITH SOME OF HIS OLDEST COLLABORATORS AND INVOLVES THEIR REPLACEMENT BY MEN MORE LOYAL TO CEFIS AND TO DC. FRANCO LUGLI, WHO REPLACED CORSI AND WAS DESCRIBED TO US BY RATTI AS "MERE ACCOUNTANT" IN COMPARISON WITH "FINANCIAL GENIUS" CORSI, IS PRESUMABLY MAN CEFIS CAN DEPEND ON. AND ALBERTO GRANDI, RIVAL TO RATTI WHO HAS NOW TAKEN OVER SOME OF RATTI'S FUNCTIONS, REPORTEDLY HAS LONG AND INTIMATE ASSOCIATION WITH DC. SO CEFIS WILL PRESUMABLY NOT SUFFER ANY FURTHER INTERFERENCE FROM THOSE QUARTERS.

12. WHAT WILL HAPPEN NEXT? AS THINGS STAND, BOARD WILL PUT PLAN TO INCREASE CAPITALIZATION UP BEFORE STOCKHOLDERS AT ANNUAL MEETING APRIL 18. HOW MONTEDISON WILL CONVINCE ITS STOCKHOLDERS TO PAY ASKING PRICE OF 500 LIRE/SHARE FOR STOCK NOW SELLING AT 310 IS GOOD QUESTION, PARTICULARLY AS FAR AS NON-GOVERNMENT STOCKHOLDERS CONCERNED. SHOULD BE REMEMBERED THAT SIMILAR BUT MORE LIMITED SHARE OFFER IN EARLY 1976 (45 MILLION SHARES) WAS ONLY ONE-QUARTER SUBSCRIBED. NEVERTHELESS, BETTING IS THAT CEFIS, ASSISTED NO DOUBT BY MEDIOBANCA HEAD ENRICO CUCCIA, WILL COME UP WITH MONEY OR GOOD PART THEREOF. HOW THAT IS ACCOMPLISHED REMAINS UNCLEAR (CUCCIA HIMSELF HAS DRAWN UP COMPLICATED PLAN CALLING FOR PARTIAL GOVERNMENT GUARANTEES FOR SUBSCRIBERS) AND LIMITED OFFICIAL USE

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POSSIBILITY OF FAILURE STILL EXISTS.

13. ONE REASON CEFIS STANDS GOOD CHANCE OF SUCCESS IS THAT POLITICAL PARTIES HAVE THEIR HANDS FULL WITH OTHER MATTERS (E.G., STUDENT DEMONSTRATIONS, GOVERNMENT STRUGGLE WITH UNIONS) AND SEEM NOT TO WANT MUTUAL SCRAP AT THIS MOMENT OVER MONTEDISON. ALL, HOWEVER, HAVE STRONG FEELINGS ON SUBJECT. ALL AGREE GOVERNMENT SHOULD HELP KEEP MONTEDISON ON ITS FEET. PCI AND PSI, HOWEVER, LEAN TOWARD MORE GOVERNMENT CONTRL OF MONTEDISON, PROBABLY LESS FOR IDEOLOGICAL REASONS THAN BECAUSE COMPANY NOW MAINLY IN DC HANDS, EVEN MORE SO NOW THAT ALBANESE IS GONE, RATTI DOWNGRADED, AND ALBERTO GRANDI (DC) PROMOTED. LEFTIST PARTIES IN SHORT WOULD LIKE MORE SAY IN HOW CONGLOMERATE IS RUN.

14. NOT THAT DC IS ENTIRELY DEVOTED TO CEFIS OR HIS PROGRAM. MINISTER OF INDUSTRIES DONAT CATTIN IN FACT HAS

JUST HELD UP LATEST TRANCHE OF LOW COST GOVERNMENT LOAN TO MONTEDISON BECAUSE OF COMPANY'S UNILATERAL RENUCIATION OF ITS CONTRACT BETWEEN UNIONS AND MONTEFIBRE. LIKE LEFTIST PARTIES, DC SEEMS DETERMINED TO MAKE MONTEDISON KEEP ITS MONEY-LOSING TEXTILES SUBSIDIARY AND AVOID SPECTRE OF MONTEFIBRE'S 14,000 WORKERS JOINING UNEMPLOYED. THUS, CEFIS DOES NOT ENJOY FULL SUPPORT EVEN FROM DC. DC SENATOR AND MILAN STOCK EXCHANGE PRESIDENT URBANO ALETTI, IN FACT, TOLD US THAT MAN WHO HAS MISMANAGED AS CEFIS HAS DONE SHOULD EITHER RESIGN OR SHOOT HIMSELF, EXPLAINING QUICKLY THAT HE WAS NOT SUGGESTING LATTER COURSE. ALETTI ADDED THAT CEFIS' PRACTICE OF BANKROLLING ALL POLITICAL PARTIES INDISCRIMINATELY DISQUALIFIED HIM FROM RIGHT TO REGARD HIMSELF AS CHRISTIAN DEMOCRAT AND, MORE-OVER, THAT THIS WAS CONDUCT UNBECFITTING SERIOUS BUSINESSMAN.

15. TO SUM UP, MONTEDISON WILL PROBABLY MANAGE TO STAY MAINLY IN PRIVATE SECTOR, EITHER BY RAISING ALL OR PART OF NEEDED MONEY VIA NEW SHARE ISSUE OR VIA SALE OF BANKS AND INSURANCE COMPANIES. LATTER OPERATION, ACCORDING LIMITED OFFICIAL USE

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TO DE CAROLIS, IS STILL POSSIBILITY. IN THIS CASE CEFIS WOULD REMAIN. IF UNEXPECTED WERE TO HAPPEN--IF, FOR EXAMPLE, LEFTIST PARTIES PRESSED THEIR CASE AND WON--CEFIS WOULD BE OUT AND ITALY'S PUBLIC SECTOR SIGNIFICANTLY ENLARGED. SUCH OUTCOME WOULD, IN DE CAROLIS' OPINION, BE STAGGERING AND PERHAPS DEFINITIVE BLOW TO LARGE-SCALE PRIVATE ENTERPRISE IN ITALY. THAT NEITHER OF LEFTIST PARTIES APPEARS ANXIOUS TO EXPAND PUBLIC SECTOR IS ANOTHER GOOD RASON WHY THIS SOLUTION LESS LIKELY.FINA

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